

TESTIMONY FOR SB224

OLD FUND: Explain – Closed to new members since 7/1/1990. Currently less than 1000 people left and declining. (See Att #1)

TIMELINE OF EVENTS

2003 Session – Due to 9/11/2001 economic slowdown, 2003 was one of the toughest sessions I've seen. Projected \$300 million deficit.

As we neared the end of the session, after large cuts in spending, we still remained approximately \$22 million short of balancing the budget.

Choice 1: Raise taxes \$22 million to balance budget with the likely result of making a fragile economy worse.

Choice 2: Remove some "excess reserves" from the Old Fund in hopes that the economy would rebound and we can pay it back later.

We chose the latter. Besides, if we didn't use it, it looked like the New Fund was going to take it. See 2001 – 2002 \$14 million. (See Att #2)

I thought the bill would be controversial, so rather than delegate this, I chose to carry the bill as the House Majority Leader. It turned out not to be very controversial or political and was easily passed in the House and Senate. It passed 48/1 in the Senate and 62/38 in the House.

As hoped, the economy rebounded, and we came into the 2005 session with a new administration and a \$350-450 million surplus. Senator Esp proposed SB 315 to replace the money taken from the Old Fund. The new administration opposed the bill and this committee tabled the bill. Not to be discouraged, Sen. Esp attempted to get the money through the appropriations process. Again it was opposed by the administration, so nothing was done.

Then the 2007 session came along with a \$1 billion + surplus. No priority by the administration was made in the executive budget to put the money back in.

Things were okay through 2004 – in fact, reports from Legislative Audit Division (LAD) showed the fund still had enough reserves to cover claims (*See Att #3*). But starting in 2005, there have been numerous reports that because of low investment returns (*See Att #4*), huge increases in medical costs and court case losses, the fund did not have sufficient reserves to meet payouts in later years. In fact, even if we would have left the \$22 in the fund in 2003, it would still be short due to the above stated reasons.

Then comes 2008 and the author of the 2003 legislation, Roy Brown, is running for Governor. All of a sudden, it is a very hot political football. All kinds of accusations. After all these details above were explained (*See Att #5*), the issue died. But I was compelled to end this political football and that is why this bill is here before you today.

What does this bill do? It gives the Governor's Budget Office discretion to transfer up to \$30 million into the Old Fund reserves.

Since I put this bill in, the Governor's Office has decided to use a "pay as you go" approach, similar to what was anticipated in the LAD letter. (*Att #6*). Pages 62 and 63 of Leg. Budget Analysis, 2011 Biennium, by LFD, shows general fund non-budgeted transfers to cover the year to year costs for the Old Fund which are expected to start in 2011.

I have no problem with that approach and actually expected that would be the method the Legislature should use each year that there is a deficit. However, if we use this bill's approach, most of the present value of the future obligation is satisfied.

Thanks for your attention. I will do my best to answer any questions.